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INFO RUCPDO/DEPT OF COMMERCE WASHINGTON DC PRIORITY
RHEHAAA/NSC WASHDC PRIORITY
RUEHBJ/AMEMBASSY BEIJING 2363
RUEHRL/AMEMBASSY BERLIN 1363
RUEHLO/AMEMBASSY LONDON 1997
RUEHFR/AMEMBASSY PARIS 6021
RUEHFT/AMCONSUL FRANKFURT 0471
RUEHFK/AMCONSUL FUKUOKA 6816
RUEHOK/AMCONSUL OSAKA KOBE 0483
RUEHKSO/AMCONSUL SAPPORO 7412
RUEHGH/AMCONSUL SHANGHAI 0365
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RUEHGV/USMISSION GENEVA 3268

C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 000801

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TREASURY FOR DOHNER, POGGI; STATE FOR EEB/OMA AND EAP/J;
NSC FOR TONG;

E.O. 12958: DECL: 03/24/2018

TAGS: [EFIN](#) [ECON](#) [PGOV](#) [JA](#)

SUBJECT: BANK OF JAPAN CUSTODIANS PUT ON BRAVE FACE

REF: TOKYO 761

Classified By: Ambassador J. Thomas Schieffer for reasons 1.4 b/d

Summary

11. (U) Working to ensure the smoothest possible operations following the Diet's inability to compromise on a central bank governor before incumbent Governor Fukui's term expired March 19, the Bank of Japan's Policy Board met on March 21 and elected deputy governor Masaaki Shirakawa as Chairman. The Policy Board is the Bank's key policy-setting committee. The election puts Shirakawa firmly in control of policy, in addition to his operational responsibilities. While the Board did not discuss monetary policy during the course of the meeting, the subsequent press conference allowed for Shirakawa to make statements that suggested little if any change in the Bank's approach or outlook.
End Summary.

Shirakawa Assures Consistent Outlook and Direction for BOJ

12. (U) The Bank of Japan (BOJ) began operations under two deputy governors on March 21, an arrangement that outgoing BOJ Governor Toshihiko Fukui described as placing "extraneous stress on the organization," while cautioning "(I)t is doubtful whether the Bank of Japan can work well for long without the top post being filled." In a press conference following the Policy Board's March 21 meeting, Shirakawa admitted that the vacancy in the top post at the central bank was "unusual," but emphasized continuity in the BOJ's business. "The most important task is to deal appropriately with the turmoil in international financial markets," he stated. "The top priority is to handle appropriately the nervous climate in the global financial market triggered by the subprime loan issue. We cannot let the Bank's operations stall. I will fulfill my duties until a governor is appointed," Shirakawa said.

13. (C) The press conference presented an opportunity for Shirakawa and fellow deputy governor Kiyohiko Nishimura to dispel questions of a leadership vacuum and demonstrate

policy consistency by articulating a view of Japan,s economy that tracks closely with the Policy Board's March 7 judgment. (Their analysis nonetheless allowed for considerable uncertainty in current financial markets.) Shirakawa not only described the present near-zero real interest rates as a highly stimulative monetary policy approach, but suggested that the BOJ ought to evaluate comprehensive monetary conditions, including credit spreads. When asked about the effects of lower interest rates, Shirakawa carefully avoided references to a rate cut, saying that it is inappropriate to assess monetary easing by only focusing on short term rates. Describing the mutual dependence between asset prices and the real economy as causing economic swings, Shirakawa noted that there is no implication of such mutual dependence on near-term monetary policy implementation.

¶4. (U) Although there are now only seven of the nine permanent members, the BOJ Policy Board is scheduled to meet April 8-9. However, if conditions demand, the Bank has the capacity to respond rapidly to market turbulence, similar to Governor Fukui's emergency meetings on March 20 and 25, 2003. When asked if Shirakawa would attend the April Group of Seven finance ministers and central bank governors meeting in Washington, Chief Cabinet Secretary Nobutaka Machimura remarked at a separate press conference, "we have no choice but to do so if the governor has not been decided by then," adding that "the government must make the utmost efforts to end the vacancy in the (governor,s) post." Shirakawa and Nishimura will now oversee the bank,s settlement services, information technology system, personnel, and asset management in addition to their policy board duties.

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Market Response

¶5. (U) Shirakawa's comments do not suggest a high probability of a rate cut, although he did hint at the need for flexibility in the face of growing uncertainty. On the first market day following the press conference, the Nikkei 225 index was down slightly 2.48 to 12,480 on the lowest trading volume in nearly a month.
SCHIEFFER